



END TO END (E2E) CUSTOMER SUPPORT

PERFORMANCE BASED AGREEMENT (PBA) TEMPLATE

Version 1.1

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Change History

Version	Date	Description of Changes
1.0	15April2003	Initial Release
1.1	30May2003	1. Updated Section VI Performance and Measures to more clearly define metric data sources and rules. 2. Updated Section VII Revisions and Flexibility to define relationship with the budgeting process.

Table of Contents

<u>Section</u>	<u>Page No.</u>
I. Introduction.....	4
II. Preface.....	4
III. Objective and Scope	5
IV. Content.....	5
V. Roles & Responsibilities.....	6
VI. Performance Measures.....	6
VII. Revisions and Flexibility	7
VIII. Accountability and Oversight	8
IX. Existing Agreements.....	8
X. Contingency Agreements.....	8
XI. Execution of Agreement	8
XII. Conclusion	9
APPENDIX A: End to End Customer Support Definitions.....	10
APPENDIX B: Examples of PBA Metrics and Definitions	12

I. Introduction

Implementing customer-focused supply chains is a key strategy of the End to End (E2E) Customer Support goals of the Future Logistics Enterprise (FLE). The Performance Based Agreement (PBA) process is the framework for creating and sustaining end-to-end customer support and begins with collaborative, direct negotiations between DoD Component sources of supply and their warfighter customers. The PBA represents the codification of the negotiated customer requirements and performance expectations.

It is understood that the nature and shape of these agreements will change as the process matures. It is the intent of this initial template to establish an environment in which the PBA becomes a structured tool for setting mutually agreeable expectations and measuring how effectively those expectations are being met.

II. Preface

This PBA Template is an initial version to facilitate further discussion with regard to the use of Performance Based Agreements (PBAs) during E2E implementation. It provides DoD organizations a common framework, a ‘checklist’ to consider, when undertaking a performance based type agreement that may involve one or more supply chain support services.

This template is guidance and not direction on how a PBA should be structured. As the PBA development and implementation process matures, “best practices” will evolve and define the PBA agreement structure and content. PBA terms and definitions can be found in the appendix.

Consider the following elements when developing a Performance Based Agreement:

- Objective and Scope
- Content
- Roles and Responsibilities
- Performance Measures
- Revisions and Flexibility
- Accountability and Oversight
- Contingency Agreements
- Execution of Agreement

These elements are explained in the following sections of this document.

III. Objective and Scope

PBA's are used to establish measurable service and performance level parameters within agreements between DoD Organic Component Sources of Supply (SOS) and their customers, in conjunction with the fulfillment agents (distribution centers and transportation providers). The collaborative communication process is the means to set mutual expectations for the level of support and the means by which they will be acquired between the organic SOS and their customer. The scope of the PBA will vary in terms of service and performance parameters based upon the support scenario; however a general plan will address a basic set of criteria:

- A. PBA's document customer requirements and establish a set of mutual expectations to which all parties subscribe.
- B. Each agreement may provide organic supply chain support for a specific commodity and/or entail organic support of a major weapon system.
- C. The agreement shall document the intent of the parties to review specific performance data for the purpose of measuring the effectiveness of the business process changes implemented due to the agreement parameters.
- D. PBA's established jointly by the SOS and the customers will ideally be expressed in contract-like terms which outline the desired outcome.
- E. The PBA should establish a process for future agreements, to include input into the process for determining what service offerings and performance targets can be provided and the relative costs of different target levels.
- F. The PBA may facilitate changes to existing DoD and intra-Service/Agency policies and standards regarding absolute or comparative levels of support. Recommended changes may guide any future agreement (s).

IV. Content

Pending overall guidance and policy, the designated SOS will tailor the content of a PBA to best meet the needs of the customer. Eventually, best practices and continued analysis will derive consistent format and content. In the interim, recommended content guidelines are outlined below:

- A. SOS and the customer sign the agreement to participate in the business process of collaborative support for selected commodity and/or weapon system/sub-system support.
- B. SOS and the customer agree to work together to maximize the effectiveness of collaborative customer support by identification of all the parties involved, the tools used, the planning horizons and the levels of collaboration.

C. Clear identification of the supply chain service parameters, the identification of the item, system, or commodity to which customer performance and support requirements will be applied (e.g. specific nodes of the supply chain, the weapon system, and subsystem, etc.). The decision on scope should take into consideration the ability to gather appropriate performance data.

D. The customers' required levels of support will be quantified as metrics. The Combatant Commanders' operational readiness objectives, quantified as metrics, should be considered for weapon system support.

V. Roles & Responsibilities

Roles and responsibilities should be clearly delineated in each individual PBA so that each stakeholder clearly understands the performance level to which they've subscribed. Key aspects of this portion of the PBA include:

A. Signature authority, as well as the ultimate responsibility for monitoring, management and execution of all portions of the PBA agreement, lies with the individuals designated within the SOS and the customer organizations.

B. The responsibility for executing the portions of the agreement specific to the PBA and setting the detailed arrangements for accomplishing the execution of each portion of the agreement, documenting performance targets, and monitoring through measurements lies with the signatories to the agreement.

VI. Performance Measures

An essential element in the PBA is the identification of performance metrics and their supporting data sources. The SOS and customers agree to work in coordination to identify the appropriate performance measures needed to set mutual expectations and evaluate each PBA. Metrics should be carefully evaluated and selected to measure the success of specific process steps that have meaningful impact.

The SOS and the customers should consider the following performance measures for incorporation into a PBA:

A. Time Definite Delivery (TDD)

B. Stock Availability

C. Order Line Fill Rate

D. Order Quantity Fill Rate

E. Demand Plan Accuracy

These sample metrics are further defined in the appendix of this agreement. There are many additional metrics that may be appropriate to support a specific PBA. The listed metrics are only a recommended set.

The PBA partners may require additional information for review. Additional information could include actual cost data for repair and consumable parts, transportation and handling, performance data pertaining to unauthorized returns, and performance data regarding the processing of receipts of DLA shipments.

The PBA should establish timelines for the review of metrics, identification of data sources and data validation and the metrics base lining processes. Additionally, procedures for reconciliation of differences should be outlined.

To prevent mis-interpretation of metrics and the performance levels, the PBA must carefully define the details of each metric, including the description of the data sources and information systems, business rules and conditions, and calculation specifics. Guidance on interpretation and meaning of the metric should also be included where needed to avoid any confusion.

VII. Revisions and Flexibility

PBA partners should acknowledge unanticipated changes that may necessitate a renegotiation of customer expectations and provide for such renegotiation. To ensure that flexibility, PBA agreements should:

- A. Envision and document a range of support levels to accommodate for fluctuating resources,
- B. Be long term, but iteratively review and modify the PBA annually (or as needed) with the planning and budgeting process, and
- C. Flexible enough so subsequent reviews don't require a "clean sheet negotiation" effort.

The development of PBAs that define the resource level required to support specific performance thresholds is a significant step towards concurrent planning and budgeting as envisioned in the Quadrennial Defense Review (QDR). The direct linking of the performance levels and the resource requirements enables a much more intelligent budgeting process, both from a bottom-up budget development to generate a top-line budget figure, as well as a top-down prioritization process where difficult allocation choices are required. The PBAs can become a useful tool for determining the impact of the budget process on performance.

The PBA is not intended as a replacement for existing steps within the larger process of the Programming, Planning and Budgeting System (PPBS). Specific resource

implications to meet agreed upon performance should be incorporated into the current PPBS process.

VIII. Accountability and Oversight

To ensure performance agreements provide for equitable and consistent expectations and enforcement for both partners, the following guidelines are provided;

- A. Adequate resources (i.e. funding, manpower support) necessary to achieve the required support levels will be committed.
- B. Incentives for performance by organic providers should be considered and clearly defined within scope of PBA.

IX. Existing Agreements

Prior to entering a PBA agreement, all parties shall review any/all existing agreements. The review will ensure there is no conflict between an active agreement and a pending supply chain support proposal.

X. Contingency Agreements

- A. PBA agreements need to include provisions for modification for agreed-upon periods of time under situations identified in this section. This would include clauses that would be activated as a result of mission-related contingencies.
- B. Any supply chain support offering, performance measure and/or performance target that is not part of the original agreement will be discussed and documented, identifying the conditions under which the provision may be modified or suspended.

XI. Execution of Agreement

PBA's must incorporate details of how the agreement should be executed, and could include:

- A. A schedule of regular meetings, e.g. Program Area Progress Reviews, Program Reviews, Collaborative Planning, Semi-Annual Planning. Meetings and Reviews should encompass project status and metrics performance discussion as well as overall review of the processes and procedures. The overall PBA should also be formally reviewed on a routine basis.

- B. Identification and documentation of the routine Reporting required to monitor performance. This may include budget or Business Case Analysis level reports.
- C. An agenda for Integrated Customer Support Team (ICST) members and Activity-level customers, as appropriate (see paragraph below)
- D. Identification of the personnel involved
- E. Means for strategic-level oversight
- F. One or more feedback mechanisms that should include Notification and Resolution procedures as well as Escalation Procedures to address issues that are outside of the expected problem set.
- G. Signoff. Formal signoff by the responsible parties that will initiate the Implementation Stage.

A DoD Integrated Customer Support Team (ICST) comprised of various supply chain Subject Matter Experts (SMEs) may be established to assist with establishment of parameters for the PBA and subsequent review of the execution of the PBA. The responsible individual designated by the Military Service Command/Organization will identify which SME's best comprise the ICST. The ICST members will assist in the identification of processes and detail the level of effort required by each segment of the supply chain.

XII. Conclusion

Performance Based Agreements are an essential strategy of the E2E Customer Support initiative. This initial template is intended to serve as a discussion document and initial guidance for developing and implementing PBA's. Over time, as various programs implement and apply PBAs, the template and corresponding guidance will be refined and genuine best practices will emerge.

APPENDIX A: End to End Customer Support Definitions

Term	Definition
Collaboration	Two or more parties working together to achieve a common set of goals and objectives
Customers	Entity that is accountable for and manages the requirements and the associated funding required to provide material, services or information (e.g. negotiates the level of service) for consumer, e.g. DoD Major Theater Component Command Representatives, depot repair facilities, etc.
DoD Executive Agent	The Head of a DoD Component to whom the Secretary of Defense or the Deputy Secretary of Defense has assigned specific responsibilities, functions, and authorities to provide defined levels of support for operational missions, administrative or other designated activities that involve two or more of the DoD components.
Fulfillment Agent	Physically performs the required activities of the logistics chain, e.g. commercial and organic transportation providers, distribution centers, vendors, third party providers of any logistics functions.
Source of Supply (SoS)	The DoD Component entity ultimately responsible for providing overall customer support; ensures level of customer support documented in Performance Based Agreement is satisfied
Supply Planning	The process of identifying, prioritizing, and aggregating, as a whole with constituent parts, all sources of supply [external to DoD] that are required and added value in the supply chain of a product or service at the appropriate level, horizon and interval (source: Council of Logistics Management)
Customer Relationship Management (CRM)	A customer focused strategy using people, processes, and tools for setting mutual expectations within an end to end PBA to optimize the value of service to the combatant commander. CRM entails effective communication of demand requirements, continued refinement of the identified need, and system compatibility recognition.
Demand Planning	The process of identifying, aggregating and prioritizing all sources of demand for the integrated supply chain of a product or service at the appropriate level, horizon and interval (Source: council of Logistics Management) At the combatant command level, it includes force deployment planning and harmonization of the supply chain and forces the overall demand plan.
Performance Based Agreement (PBA)	A written agreement between the DoD Component Source of Supply and the customer that describes measurable service and performance level parameters based on customer requirements and expectations.

Supplier Relationship Management (SRM)	A vendor/supplier collaboration strategy which entails partnering between designated Military Service / DoD representative and supply chain providers to achieve accurate purchase planning, vendor delivery scheduling, and budget planning to meet the scope of performance agreed to within the PBA parameters
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APPENDIX B: Examples of PBA Metrics and Definitions

The examples of metrics are taken from traditional recognized Key Performance Indicators (KPIs). The examples are provided for consideration during PBA design. A standard performance review item (metric) in a PBA will assist with development of a shared understanding of Customer Relationship Management (CRM) and Supplier Relationship Management (SRM) expectations between the customer (combatant commander) and the selected supply chain provider (s).

Term	Definition
Time Definite Delivery (TDD)	The concept that, within a specified degree of probability (e.g. 85%), the logistics system is capable of delivering required materiel to the customer within a given period of time.
Stock Availability	The percent of orders received within a specified timeframe that are filled completely
Order Line Fill Rate	The % of line items fully shipped by the required ship date in order to reach the customer by the due date
Order Quantity Fill Rate	The % of goods per line fully shipped by the required ship date in order o reach the customer by the due date
Demand Plan Accuracy	The difference between actual demand and planned demand.